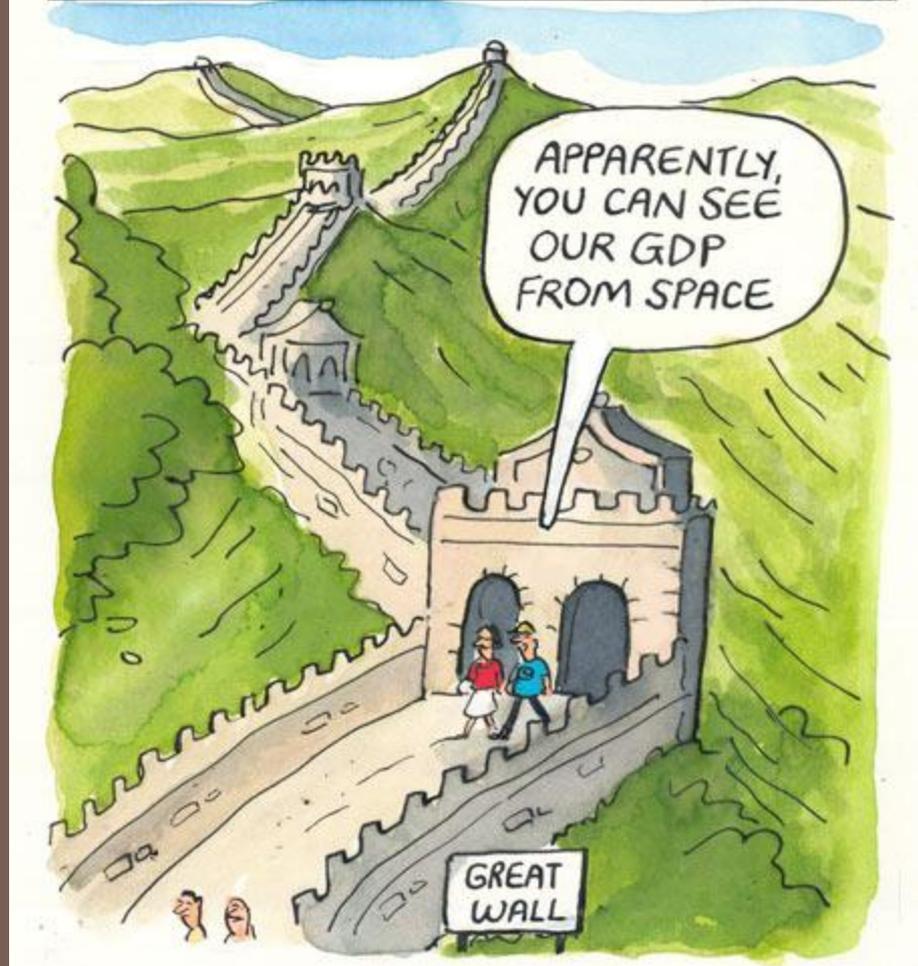


KipperWilliams



WHAT'S IN GDP?

What is gross domestic product (GDP)?

- **IT IS AN AGGREGATE MEASURE**
- **Aggregate Supply:** **TOTAL** amount of goods and services in the economy produced at **ALL** possible price levels
- **Aggregate Demand:** **TOTAL** amount of goods and services in the economy purchased at **ALL** possible price levels.
 - **DIRECTLY RELATED TO GDP!!!!**

What is gross domestic product (GDP)?

- Currency value of all **final** goods and services produced within a country in a given period
- Total income of a nation (CIRCULAR FLOW!!!)
- Measure of nation's economic well-being
- Measure of a nation's economic growth from one period to the next
- Most commonly calculated via **expenditures**

Consumption (C)



- \$ amount of goods and services purchased by **households**
 - ONLY counts goods produced **in the current year**
 - Examples: food purchases, vacations, haircuts, clothing, movies, etc



Investment (I)

- **\$ amount spent by business on productive resources and purchases of NEW HOMES by consumers!**
 - ▣ New machines, new factories, research
 - ▣ Increase in inventories also counts



Government Spending (G)

- \$ amount spent on federal, state, and local government provided goods and services
 - ▣ Ex: roads, education, military, parks, public libraries, etc



Net Exports (NX)

- Exports = goods we ship to other countries



- Imports = goods we bring in from other countries

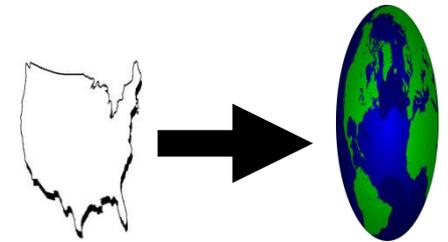
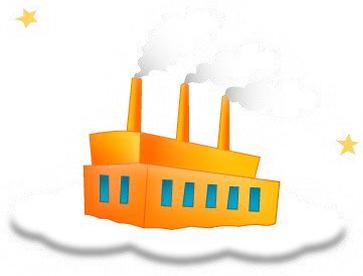


- **Exports – Imports = Net Exports**

$$GDP = C + I + G + NX$$

If any one letter increases, *ceteris paribus*, GDP increases

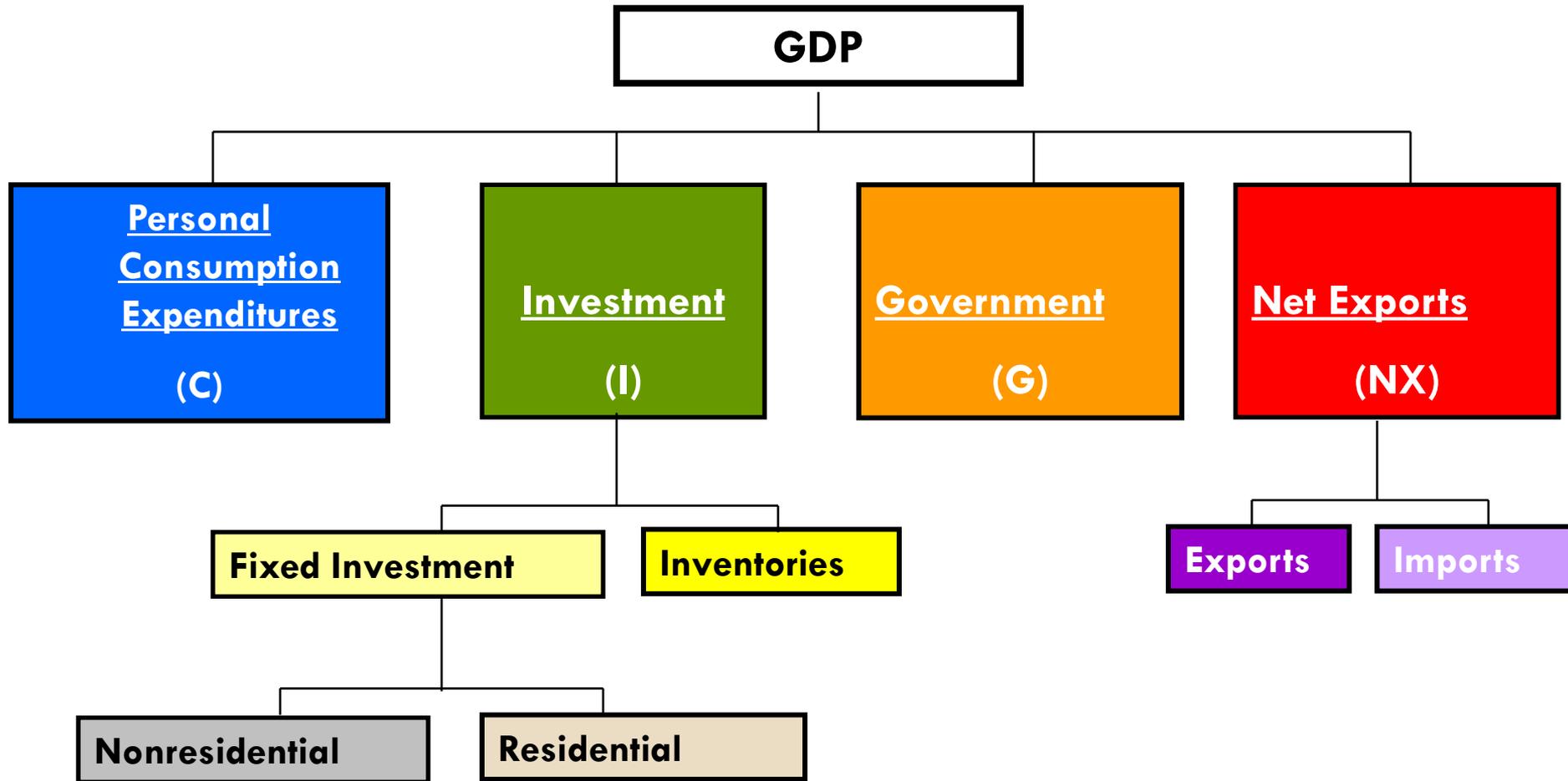
$$C + I + G + NX$$



What's not included in GDP?

- Intermediate goods
- Used goods
- Underground production (black market)
- Financial transactions
- Household production
- Transfer payments

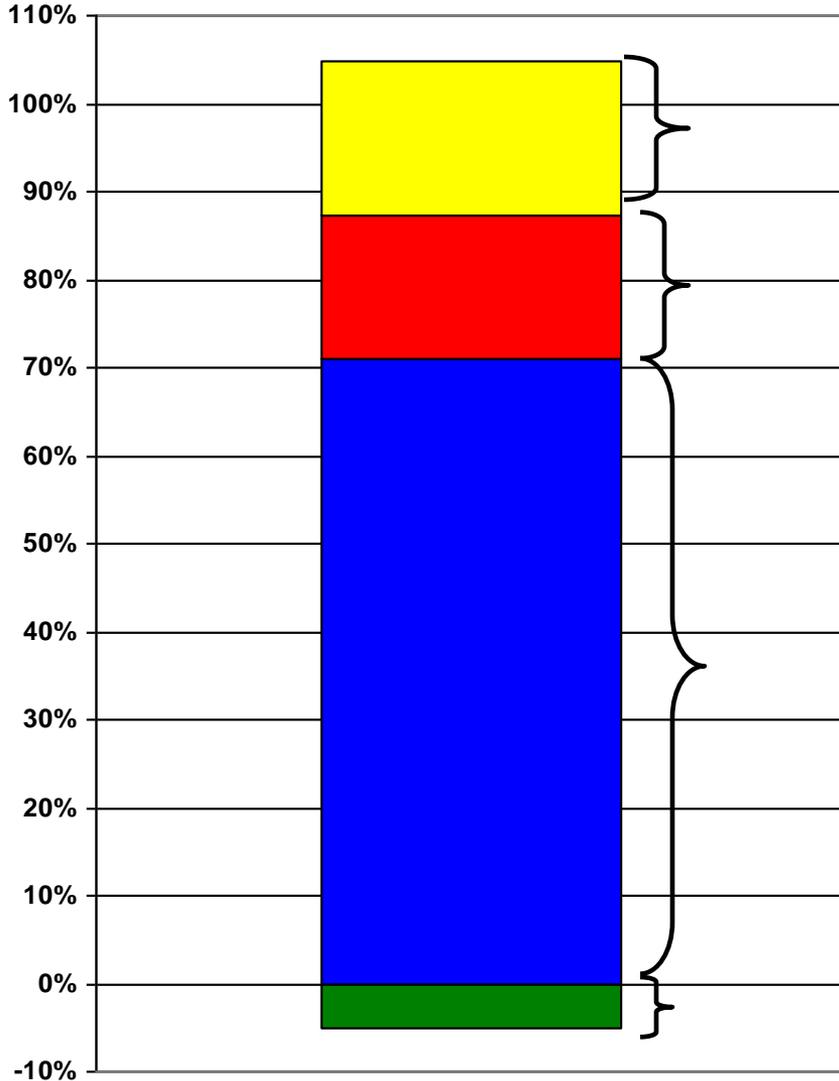
What are the components of GDP?



$$\text{GDP} = C + I + G + NX$$

How much of GDP is each component?

Average Percent of GDP since 2003



Component % of GDP

Government 19%

Investment 16%

Consumption (PCE) 70%

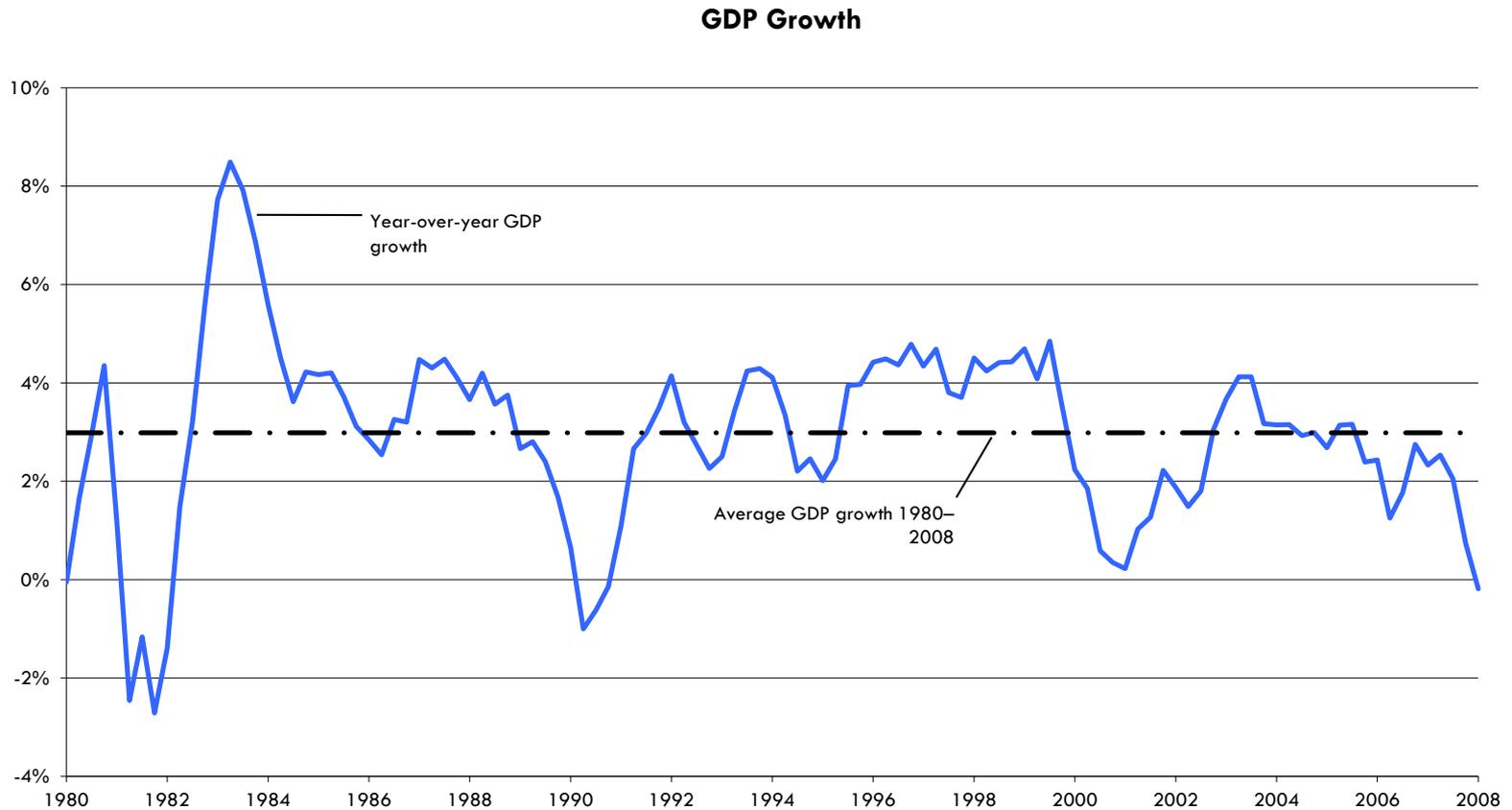
Net Exports -5%

GDP **100%**

Let's practice



What is a good rate of growth?



What GDP does not tell us

- Does not measure income distribution
- Does not measure non-monetary output or transactions (e.g., barter, household activities)
- Does not take into account desirable externalities, such as leisure or environment
- Does not measure social well-being
- Correlates to standard of living but is not a measure of standard of living

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 - Supplemental Statistics
- Integrated Accounts**
 - Integrated Income, Product, and Federal Reserve Financial Accounts
 - Integrated BEA GDP-BLS Productivity Accounts

Real GDP 1/27/2012
 +2.8% in Q4 2011

Personal Income 1/30/2012
 +0.5% in December 2011

Int'l Trade in Goods and Services 2/10/2012
 Deficit increased to \$48.8 billion in December 2011(p) from \$47.1 billion in November 2011 (r).

U.S. Int'l Transactions 12/15/11
 Current-account deficit decreased \$14.4 billion to \$110.3 billion in Q3 2011(p).

News Release Schedule

Of Interest...

Latest Release: Int'l Trade in Goods and Services

February Survey of Current Business now available

BEA Director on CSPAN's Washington Journal



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BEA 12-05

* See the navigation bar at the right side of the news release text for links to data tables, contact personnel and their telephone numbers, and supplementary materials.

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National Income and Product Accounts Gross Domestic Product, 4th quarter 2011 and annual 2011 (second estimate)

Real gross domestic product -- the output of goods and services produced by labor and property located in the United States -- increased at an annual rate of 3.0 percent in the fourth quarter of 2011 (that is, from the third quarter to the fourth quarter), according to the "second" estimate released by the Bureau of Economic Analysis. In the third quarter, real GDP increased 1.8 percent.

The GDP estimate released today is based on more complete source data than were available for the "advance" estimate issued last month. In the advance estimate, the increase in real GDP was 2.8 percent (see "Revisions" on page 3).

The increase in real GDP in the fourth quarter reflected positive contributions from private inventory investment, personal consumption expenditures (PCE), exports, nonresidential fixed investment, and residential fixed investment that were partly offset by negative contributions from federal government spending and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.

The acceleration in real GDP in the fourth quarter primarily reflected an upturn in private inventory investment and accelerations in PCE and in residential fixed investment that were partly offset

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Contacts

[Lisa Mataloni \(GDP\)](#)

Real and nominal GDP

- When GDP is computed in the current year's prices, rising prices (inflation) can make it difficult to determine if a change in GDP from one year to the next is due to the country's production of more goods and services or to increases in the price level.
 - ▣ Nominal GDP: GDP that is not adjusted for inflation. The value of goods and services in current prices.
 - ▣ Real GDP: The dollar price of GDP in a base year's price, used to compare changes in GDP from one year to the next. An increase in real GDP is an increase in economic growth.